

Message Text

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-----069967 212355Z /75

O 212255Z AUG 78
FM SECSTATE WASHDC
TO AMEMBASSY OTTAWA IMMEDIATE

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E.O. 11652: N/A

TAGS: ETRD, EINV, CA

SUBJECT: AMBASSADOR'S LUNCH WITH QUEBEC MINISTER TREMBLY

REF: OTTAWA 3916, OTTAWA 4000

1. AMBASSADOR MAY, AT THIS DISCRETION, WISH TO DRAW ON
FOLLOWING POINTS DURING HIS LUNCH WITH QUEBEC MINISTER OF
INDUSTRY AND COMMERCE TREMBLY.

2. THE UNITED STATES VIEWS THE ACCELERATION OF CANADIAN
INVESTMENT INCENTIVES FOR THE AUTO INDUSTRY WITH CONCERN.
WE BELIEVE THAT THE USE OF THESE INCENTIVES MISALLOCATES
RESOURCES BY INTERFERING WITH MARKET PATTERNS, IS INCON-
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SISTENT WITH THE TERMS OF THE US-CANADIAN AUTO AGREEMENT,
AND WILL ACCELERATE PRESSURES ON OUR GOVERNMENT TO OFFER
SIMILAR INCENTIVES TO THE AUTO INDUSTRY. THE UNITED STATES
AND CANADA AGREED-DURING RECENT CONSULTATIONS THAT,

GIVEN THE UNDESIRABLE EFFECTS OF SUBSIDIES, THEY WILL
HOLD FURTHER CONSULTATIONS TO INVESTIGATE THE EXTENT OF AND

POSSIBLE SOLUTION TO THE PROBLEM.

3. ALTHOUGH THERE MAY BE A BUREAUCRATIC OR LEGAL DIS-

TINCTION BETWEEN THE DOLS. 68 MILLION SUBSIDY TO FORD AND THE DREE GRANT UNDER CONSIDERATION FOR GM, LARGE GRANTS FROM DREE TO ENCOURAGE AUTO INVESTMENT WILL IN FACT BE PERCEIVED IN THE US AS PART OF A CONTINUING PATTERN OF GOC FEDERAL INVESTMENT INCENTIVES.

4. YOU MAY WISH TAKE THIS OPPORTUNITY TO POINT OUT TO TREMBLY THAT HIS IMPRESSION THAT GATT PROVISIONS PROTECT REGIONAL SUBSIDIES FROM COUNTERVAILING ACTION IS INCORRECT. THE GATT CONTAINS NO SPECIAL PROVISION ON REGIONAL SUBSIDIES, EITHER IN ARTICLE XVI OR ARTICLE VI (COUNTERVAILING DUTIES).

5. MINISTER TREMBLY WILL BE CONCERNED ABOUT ANY IMPLICATION THAT WE MAY BE TAKING A HARDER LINE ON THE DREE GRANT IN QUEBEC THAN WE DID WITH REGARD TO THE INCENTIVE FOR FORD IN ONTARIO. THUS, WHILE WE NEED TO CORRECT ANY MISUNDERSTANDING ABOUT APPLICABLE GATT PROVISIONS, IT IS IMPORTANT TO MAKE CLEAR THAT WE ARE NOT MAKING ANY INVIDIOUS DISTINCTIONS BETWEEN INVESTMENT INCENTIVES OFFERED BY OR FOR ONTARIO AND QUEBEC.

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6. THE USG HAS NOT EXERTED PRESSURE ON GM REGARDING THE LOCATION OF ITS ALUMINUM DIE-CASTING PLANT. CHRISTOPHER

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